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AARP

W-02199A-11-0329
SW-02199A-11-0330 AARP Arizona

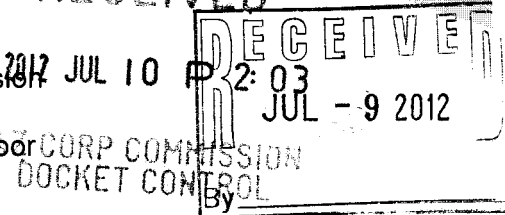
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Commissioner Paul Newman
Arizona Corporation Commission
Commissioners Wing
1200 W. Washington - 2nd Floor
Phoenix, AZ 85007



July 5, 2012

Dear Commissioner Newman:

AARP submits these comments regarding a proposal under consideration in the Pima Utility rate case Docket No. W-02199A-11-0329, which would be both costly for Pima customers, and set a precedent that, if adopted in other rate cases, would significantly raise utility rates for consumers across the state.

It has come to our attention that the ACC is considering whether to allow the recovery in rates of personal income taxes of shareholders of utilities organized as S corporations and limited liability corporations (LLC) in the rate case for Pima Utility. Currently, utilities that are organized as S corporations or LLCs do not recover income taxes from their ratepayers in Arizona.

In ratemaking, the amount of income taxes included in rates should be adjusted to ensure that ratepayers do not pay the taxes of individuals who are structurally separate from the entity providing the regulated service. Because the sub-S owners' income and deductions from the utility operations would be combined with income and deductions from activities unrelated to the utility operations, the imputed income tax recovery the utility is attempting to build into utility rates may bear little if any relationship to actual tax liabilities incurred by the owners. That's why including such taxes in rates is sometimes referred to as "phantom taxes" because the rates include so-called "taxes" that at the end of the day never make their way to the Federal Government.

AARP believes that consumers should pay fair utility rates, and not one penny more. However, Pima's proposal would cause its customers to pay more than a fair amount for operation of the utility. Further, the imputed taxes represent a significant rate increase for Pima customers. According to the brief filed by the Residential Utility Consumer Office (RUCO), this tax issue accounts for over 50% of the requested wastewater rate hike and 30% of the proposed water rate increase.

The Pima utility serves Sun Lakes, which is an age restricted community. That means that retirees and other seniors will be asked to pay higher rates under this unfair policy. Nobody likes to pay more than their fair share of utility rates, or taxes. AARP urges the Commission to continue the current policy and reject Pima's tax proposal which is unfair to its customers.

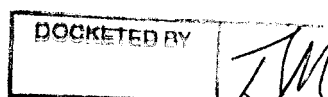
Sincerely,

David M. Mitchell

David M. Mitchell
AARP Arizona State Director

Arizona Corporation Commission
DOCKETED

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Robert G. Romasco, President
Addison Barry Rand, Chief Executive Officer